Moray Integration Joint Board

Annual Audit Plan 2018/19



AUDIT SCOTLAND

Prepared for Moray Integration Joint Board
March 2019

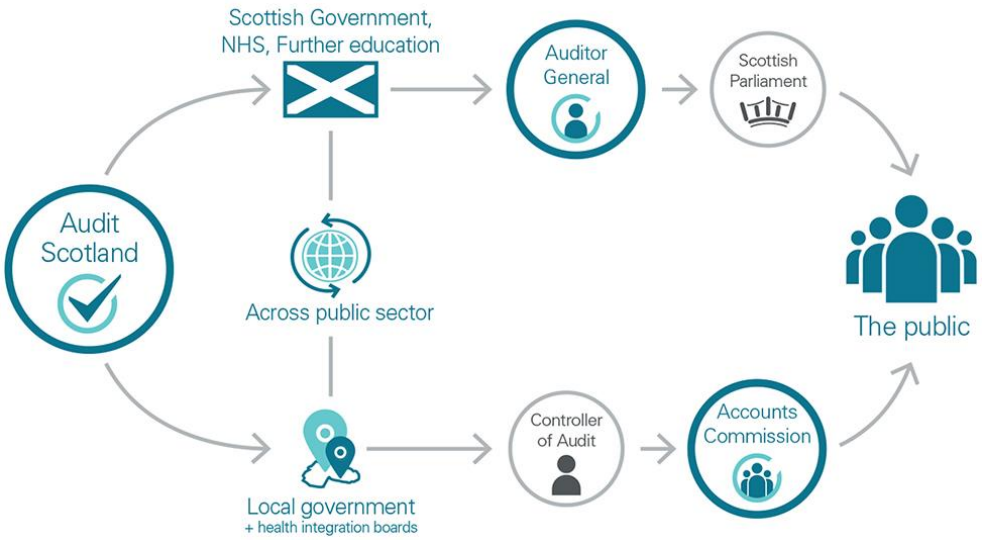
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- the Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance

- the Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to Moray Integration Joint Board (the IJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the IJB. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in Exhibit 1.

Exhibit 1
2018/19 key audit risks

⚠ Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Assurance from host body auditors on the accuracy and completeness of year end financial reports. Detailed testing of significant adjustments at year end. On-going review of financial position.

Audit Risk	Source of assurance	Planned audit work
Wider dimension issues and risks		
2 Financial management and sustainability The 2018/19 budget agreed by the IJB in March 2018 identified a funding shortfall of £4.6 million. This gap was subsequently reduced to £3.3 million, at the end of June, following the identification of additional savings of £0.5 million and the use of all of the IJB's reserves (£0.8 million). This represented an unbalanced budget which was underpinned by partner deficit funding in line with the integration scheme. In November 2018, the IJB agreed a financial recovery plan with NHS Grampian and Moray Council aimed at reducing the 2018/19 funding shortfall and addressing the underlying overspend on core services in future years. In February 2019, the Chair of the IJB wrote to the chief executives of its partner bodies to advise that a £1.5 million deficit (after the use of reserves) was being forecast for 2018/19 and that this would require to be funded by NHS Grampian (63%) and Moray Council (37%). We have previously reported that the IJB has yet to develop medium to long term financial plans. Although the financial recovery plan covers the period 2019/20 to 2021/22, it only sets out projected savings to recover the underlying deficit on core services and does not include any additional budget pressures. There is a risk that: • the recovery plan is not robust, and the required savings are not realised • the IJB is not planning adequately over the medium to long term to manage or respond to significant financial risks.	Progress has been made during 2018/19 through enhanced scrutiny and restrictions in relation to expenditure. This has been positive in reducing the forecast deficit (after use of reserves) for the year. The Recovery Plan has been agreed by partners and the risks inherent in the plan have been highlighted to members of the IJB. To further address this, the Senior Management Team will be conducting service reviews to ensure strategic priorities can be delivered within the financial framework. The medium term financial strategy will be aligned to the new Strategic Plan and presented to the IJB in June 2019 as part of a suite of reports addressing transformation. It is acknowledged by IJB members that this should be considered in the context of longer-term financial planning.	Ongoing review of financial monitoring reports. Continuing to monitor the in-year and year end financial position and additional funding required from NHS Grampian and Moray Council. Consideration of the quality of the recovery plan and deliverability of actions proposed. Review the development of medium/long term financial planning.

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in Exhibit 2, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

7. We will provide an independent auditor's report to the IJB and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2
2018/19 audit outputs

Audit Output	Target date	Audit, Performance and Risk Committee date
Annual Audit Report	9 September 2019	19 September 2019
Independent Auditor's Report	20 September 2019 (Signed)	19 September 2019 (Proposed)

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2018/19 audit of the IJB is £25,000 (2017/18: £24,000). In determining the audit fee, we have taken account of the risk exposure of the IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 27 June 2019.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Moray Integration Joint Board and Chief Financial Officer

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the annual accounts does not relieve management or the IJB, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts



14. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the IJB and the associated risks which could impact on the financial statements
- obtaining assurances from the auditors of the partner bodies (NHS Grampian and Moray Council) on the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the IJB as at 31 March 2019 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2018/19 Code of practice on local authority accounting in the UK
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Other information in the annual accounts

16. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these statements have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated materiality values for the IJB are set out in Exhibit 3.

Exhibit 3
Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of projected gross expenditure for the year ended 31 March 19 based on the revenue budget for 2018/19.	£1.3 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£0.6 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 4% of planning materiality.	£50,000

Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is critical that a timetable is agreed with us for the audit of the annual accounts. Exhibit 4 sets out the agreed timetable which takes account of submission requirements and planned Audit, Performance and Risk Committee meeting dates.

Exhibit 4
Annual accounts timetable

Key stage	Date
Consideration of unaudited annual accounts by those charged with governance	27 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	27 June 2019
Latest date for final clearance meeting with Chief Financial Officer	30 August 2019
Agreement of audited unsigned annual accounts	9 September 2019
Issue of Annual Audit Report including ISA 260 report to those charged with governance	
Audit, Performance and Risk Committee meeting to approve the audited annual accounts for signature and to consider the Annual Audit Report	19 September 2019
Independent auditor's report signed	20 September 2019

Internal audit

21. Internal audit is provided by Moray Council internal audit section. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

22. In our 2017/18 audit report we noted that an external assessment against the PSIAS had not yet taken place and so internal audit could not demonstrate full compliance with these Standards. The assessment took place in February 2019. We will review the findings and report the results in our Annual Audit Report

Using the work of internal audit

23. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We do not plan to place any formal reliance on the work of internal audit in 2018/19. We will consider internal audit's work on corporate governance as part of our wider dimension audit responsibilities.

Audit dimensions

24. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 5.

Exhibit 5
Audit dimensions



Source: Code of Audit Practice

Financial sustainability

25. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the IJB's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

26. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on whether the IJB:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

27. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the IJB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making
- the quality and timeliness of financial and performance reporting.

Value for money

28. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the IJB can provide evidence that it is demonstrating value for money in the use of resources, has focus on improvement and that there is a clear link to the outcomes delivered.

Independence and objectivity

29. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

30. The engagement lead (i.e. appointed auditor) for Moray Integration Joint Board is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the IJB.

Quality control

31. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

32. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

33. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Moray Integration Joint Board

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